The Son Also Rises

More Firms Ban Hiring Of Relatives, but Many Still Ardently Favor It

Son's Presidency at Douglas Stirs Sharp Debate; Bank Sets Curb at Third Cousin

Nepotism or Family Talent?

A WALL STREET JOURNAL *News Roundup*

Johnson & Johnson, the medical-supply company, thinks "it's just sound employment practice" to avoid any possibility of having jobs filled on the basis of family favoritism. So, a spokesman says, it has long enforced unwritten but strict hiring rules: At the factory and clerical levels relatives can be employed only in different divisions or on different shifts. And at the management level, relatives can't be employed at all.

But there's one exception. The company's president, 43-year-old Robert W. Johnson, Jr., took office in 1961 under his father, Gen. Robert Wood Johnson, who was then chairman of the board.

In rather extreme form, this situation mirrors a growing clash of business views on the wisdom of employing relatives—especially as executives. It's unusual, though not unheard of, for a company to be divided against itself on the issue. But the business world is increasingly being split between companies that strongly oppose hiring relatives, and companies that either see nothing wrong with it or actively favor it.

The Dirty Word

At the heart of the argument lies a word: Nepotism. Dictionaries define it as "favoritism shown to . . . relatives; bestowal of patronage by reason of relationship rather than merit." And nobody defends it, at least not in companies whose stock is available for purchase by the public. But businessmen disagree vehemently on how much it's to be feared.

On one side are companies that fear even the suspicion of nepotism. And their number appears to be growing rapidly. In 1955 the American Institute of Management found only 28 of the 379 companies it rated "excellently managed," or about 7%, had written policies banning or restricting the hiring of relatives; a "somewhat larger" number had unwritten rules. Last year, it found two-thirds of 530 "excellently managed" companies had such rules; 28% had put them in writing and 36% had unwritten policies.

Some rules are fairly lenient. U.S. Steel Corp., Aluminum Co. of America, Westinghouse Electric Corp., Gulf Oil Corp., Standard Oil Co. (Ohio) and International Harvester Co. specify only that no one can work under a relative's supervision. But other rules are tough. First National Bank of Atlanta won't hire any relatives closer than third cousins, and a number of companies insist that if employes marry, one must quit.

Bouncing Wives, In-Laws

In some cases, these policies reflect unhappy experiences. "The reason we feel so strongly against nepotism is that we've got so much of it," says an officer of a Southwestern oil company. "We're plagued with relatives working for relatives because of acquisitions; when you take over a company part of the deal usually is to take the present personnel." The company nevertheless told the president of one concern it recently acquired to fire his wife.

An earlier experience prompted the policy of Minnesota Mining & Manufacturing Co. In the early 1900s William L. McKnight, then an accounting clerk, lost a promotion he felt he had earned; the job went to a son of the company's founder. Mr. McKnight tried to quit, but couldn't find another job. So he vowed he would change things if he ever got the power.

Today Mr. McKnight is chairman, and under him 3-M has won worldwide renown. It also has instituted a no-relatives rule that once forced its late president, Richard P. Carlton, to fire a prospective son-in-law. Mr. Carlton's daughter became engaged to Thomas Hartzl, a 3-M engineer; Mr. Carlton called Mr. Hartzl into his office and, says a 3-M spokesman, told him "one of us is going to have to leave." Mr. Hartzl left.

But such policies are far from sweeping the business community. Anyone perusing annual reports can find scores of publicly owned companies with close relatives in important jobs.

RCA's Father-Son Team

Many firms refuse to talk about such situations. Radio Corp. of America says "there's really nothing to be gained discussing the pros and cons" of the relationship of Chairman David Sarnoff and his son, Robert W. Sarnoff, 45, chairman of RCA's National Broadcasting Co. subsidiary. Company biographies, however, disclose Robert Sarnoff had a rapid rise. He joined NBC's television network sales department in 1948 and became a vice president three years later after having, by RCA's account, "served successively in a number of major executive positions."

But many companies employing relatives aren't shy in discussing policies. "It always seems stupid to me to bar someone from a company just because he's the boss's son," says Wall Street executive Herbert R. Anderson. "Each person should be accepted on his own." Mr. Anderson is chairman of Distributors Group, Inc., underwriter and distributor of Group Securities, Inc., a group of mutual funds; his son Robert, 34, is a vice president and director.

Many companies say frankly they prefer to hire relatives, and the family controlling Joseph Magnin Co., a Western chain of women's clothing stores, even has a legal agreement insuring a family role in directing the company. This 1951 agreement bequeathed stock owned by Joseph Magnin, the founder, to his son Cyril and, according to a company prospectus, provided that Cyril "will vote his stock for the election of at least two of his children to the company's board of directors."

Actually, the family's role is much stronger than that. Cyril Magnin today is president of the chain; his son Donald, 37, is executive vice president, and another son, Jerry, be-

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came vice president and general manager of the Southern California division in January at the age of 25. In addition, Cyril Magnin's daughter, Ellen, is a fashion coordinator for the chain and her husband Walter Newman, 42, is vice president for finance and administration.

Companies have several defenses for such situations. To begin with, many insist they promote family members only if these show more talent than non-family executives. Joseph Magnin Co., for instance, vehemently denies any nepotism in the promotion of 25-year-old Jerry Magnin. "Jerry has tremendous ability," says his brother-in-law, Vice President Newman.

"Leaning Over Backwards"

Similarly, John H. Bolton, Jr., marketing vice president of Whitin Machine Works, Whitinsville, Mass., says his father, former President J. Hugh Bolton, "leaned over backwards to avoid any favoritism" when his son started his career. "He was very careful not to feed me any information that I would not normally have received in any position I held." The family relationship, says the younger Bolton, helped only in that "when I went through the (executive) training program, people were bound to remember my name, and I'm sure they did their best to see that I got as good training as possible."

If family members can make the grade, say many companies, the informality of their relationships can be a major executive asset. Joseph Magnin Co. "isn't the big corporation where you stick a knife in the other fellow's back to gain advancement," says Mr. Newman, the vice president and Magnin in-law. "There's no competitive relationship among members of the family. There is complete trust among them, and no fear of usurping the other's position."

Maryland Cup Corp., similarly, believes the presence of 12 Shapiros and in-laws among its 14 active directors "makes us very flexible." "We don't have to call a policy meeting" to make corporate decisions, explains Albert Shapiro, vice president and treasurer. "We just get on the phone." The Shapiro clan in addition holds a family meeting every couple of months to socialize and talk business, making corporate decisions by majority vote; Albert Shapiro says this makes the company "sort of a democracy with 12 dictators."

Born and Bred

Finally, many corporations stress the thorough training received by executives who have been literally brought up in the business. "When my first son was three months old I stood him up on the edge of a printing press and he watched the sheets flap by," says Milton J. Wolk, president of Goodway Printing Co. in Philadelphia. A more detailed introduction to the business began for that tot, Beryl J. Wolk, and his younger brother, Donald, when each was four, says the proud father.

Today Beryl is 35 and Goodway's vice president and treasurer while Donald, 33, is secretary; they and their father are Goodway's only officers. Under their management Goodway sales leaped to $5.6 million in the fiscal year ended Feb. 28, from about $1 million as recently as fiscal 1957.

Though many other family-run corporations can recite similar success stories, many outside management experts, as well as many corporations, nevertheless frown on family management. An officer of one investment house says that whenever his concern underwrites a stock offering for a family-owned company "going public" it tries to persuade the company to take outsiders into its board of directors. "If a company's management is completely in family control and these people don't represent a cross-section of business, you can't expect them to do as well as a board of broader experience," he says.

Unintentional Nepotists?

Critics of family management have other arguments. They say family members can rarely be completely objective in judging each other's ability. Thus, they think, many companies that angrily deny practicing nepotism nevertheless are doing it, though perhaps quite unconsciously.

Executives familiar with Douglas Aircraft Co. disagree sharply about the management skills of Donald Douglas, Jr., who succeeded his father as president in 1957. The company insists "we hire people on the basis of their qualifications to do the job, not on who they are related to." And at least one former Douglas director, while well aware that the company has had some lean years under the younger Douglas' management and hasn't paid a cash dividend on common stock since 1959, doesn't think this is the executive's fault. The company's "capabilities in missiles, space, aircraft design and construction under him are as good as any in the industry," this former subordinate says.

But others insist a better choice could have been found for the Douglas presidency. Mr. Douglas "doesn't have his father's financial acumen," says a former long-time Douglas official. "There's been terrific turnover under Junior and numerous new titles with no validity at all." And a Los Angeles management consultant says "Douglas Junior doesn't dig deep enough into problems and doesn't investigate the second and third layers of management. He doesn't know how the nuts and bolts are made."

Other executives say promotion of relatives can hurt company morale. Clayton L. Rautbord concedes other officers of American Photocopy Equipment Co. displayed "some resentment" when he succeeded his father as president a year ago at the age of 35.

But Mr. Rautbord says his promotion prompted only one or two resignations, or "no more than what might be expected in any company when a new president is named for whatever reason." An earlier resignation had been submitted by Lloyd A. Briggs, who stepped out as executive vice president in February 1963. Clayton Rautbord succeeded him and held the post until tapped for the presidency two months later by his father Samuel, who remains company chairman.

Finally, those who oppose hiring relatives contend family members sometimes put the family's interests above the company's interests. "Nepotism is like a dictatorship; it isn't subject to change if going in the wrong direction," says a Detroit executive. He tells of having worked for a company whose chief executive was a son-in-law of the founder and, says his former subordinate, ignored investment for the future to report high profits, and pay high dividends, that would please the family. "He wanted to drain out the last dollar so the family would say he was tremendous," says his ex-associate. "I would go to discuss future spending plans, and he would say: 'I don't give a damn about the next five years. What will it do to us now?' "

Even a few companies that have promoted relatives will concede it hasn't worked out too well. Sharon Steel Corp. employed as president two sons of its long-time head, Henry A. Roemer. Henry, Jr., served from 1950 to 1955, with his father as chairman, but then quit the company entirely. James Roemer was chairman and president from 1957 to 1962, with his father as executive committee chairman, but then moved down to vice president for public relations.

"Most Unsatisfactory" Results

"In some places, like Ford Motor Co., such (family management) arrangements work, and in others they don't," is the simple comment of Henry Roemer, Sr., who has now resigned all his posts with the company. Sharon's current president, Don W. Frease, is more critical. In a report to shareholders last month he termed the company's profits for the past six years "most unsatisfactory" and said the poor performance resulted "from the low level of expenditures for modernization and improvement of plant facilities during the 12-year period prior to 1962."

While shying away from any no-relatives rules some companies, aware of the dangers of family management, have adopted other measures to ward them off. Lykes Bros. Steamship Co. of New Orleans limits salaries of family members—including Chairman Solon B. Turman—to $25,000 a year, though non-related executives can earn much more. It also insists family members work up from lowly positions; Mr. Turman started as a deck hand on a cattle boat.

Other concerns, while hiring relatives, try to put limits on it. "We will not hire close relatives or close friends in supervisory capacities without the approval of the top executive group of the company," says Harry H. Stone, an executive vice president of American Greeting Corp., Cleveland greeting card firm. The top executive group includes Mr. Stone's brother, Irving, who is president; another brother, Morris, who is an executive vice president, and their father, Jacob Sapirstein, who is chairman.

Harry Stone concedes the company has "made exceptions" for "two sons-in-law of Irving; one is a salesman and the other is in our purchasing department. We do feel that sons or sons-in-law should be hired as supervisors to perpetuate the family interest in the business. But I couldn't hire my brother-in-law in the company for love or money."

On occasion a company that promotes relatives finds that some of the relatives are themselves critics of such a policy. Banker Ransom Cook once worked for a bank in which his family had an interest, but quit after three months. "Things were made too easy, and it would have caused trouble later on," he says. "I would have gotten too good a job too soon, and it would have created resentment on the part of others; they would have assumed there was favoritism, and they probably would have been right." Mr. Cook went to the San Francisco-headquartered Wells Fargo Bank, where he has risen to president—and instituted a tough no-relatives rule.

Socony Mobil Oil

SOCONY MOBIL OIL CO. INC. and subsidiaries: Balance sheet items as of Dec. 31:

	b-1963	1962
ASSETS:		
Prp., plt & equip, net	$2,349,033,000	$2,253,124,000
Cash	225,820,000	150,311,000
Marketable securities	330,188,000	154,949,000
Accounts & notes rec	754,162,000	647,552,000
Crude oil, products, etc	518,964,000	483,044,000
Materials & supplies	54,591,000	53,955,000
Investments, etc	372,606,000	346,099,000
Prepaid & deferred chgs	54,179,000	47,429,000
Total	$4,659,543,000	$4,136,463,000
LIABILITIES:		
Capital stock, $15 par	$750,453,000	$731,982,000
Long-term debt	428,159,000	228,179,000
Accounts pay, etc	591,507,000	498,732,000
Inco & other taxes pay	293,242,000	261,846,000
Long-term debt, current	17,669,000	14,896,000
Deferred credits	21,807,000	21,926,000
Reserves	136,489,000	132,840,000
Minority interest	14,112,000	14,073,000
Capital surplus	634,616,000	630,228,000
Retained earnings	1,773,507,000	1,602,244,000
Deduct treasury stock	a-2,018,000	483,000
Total	$4,659,543,000	$4,136,463,000

a-Represents 29,947 shares. b-Includes accounts of Virginia-Carolina Chemical Corp., merged in November 1963.

Nevada Power

NEVADA POWER CO.: Balance sheet items as of Dec. 31:

	1963	1962	1961
a-Total assets	$70,987,745	$51,463,231	$47,281,745
a-Electric plant	63,707,961	46,747,332	43,15[illegible]
Cash	1,378,109	840,852	9[illegible]
Temp. cash invest.	1,496,477	347,611	
Current assets	5,843,284	3,439,367	3,04[illegible]
Current liabilities	7,656,859	4,816,718	4,119,914
Long-term debt	30,935,000	20,191,000	20,336,000
Paid-in surplus	7,440,998	3,799,076	3,716,6[illegible]
Earned surplus	8,268,237	6,781,332	5,6[illegible]
Pfd. stk. valuation	5,470,000	5,470,000	3,4[illegible]
Common shares, $1 par	1,882,737	1,172,256	1,1[illegible]

a-After reserve for depreciation.

Baxter Laboratories

BAXTER LABORATORIES, INC., and subsidiaries: Balance sheet items as of Dec. 31:

	1963	1962	1961
Cash	$4,809,997	$3,582,837	$2,555,246
Inventories	16,843,290	13,811,617	8,922,142
Current assets	30,406,061	24,496,346	17,272,298
Bank notes pay, curr		4,500,000	3,300,000
Current liabilities	5,145,393	9,513,805	7,756,821
Long-term debt	20,865,000	11,195,000	5,025,000
6% pfd shs, $100 par	25,000	25,000	25,000
Common shares	2,741,187	2,695,172	2,668,840

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